GOVERNMENT OF INDIA
FINANCE
LOK SABHA

UNSTARRED QUESTION NO:2607
ANSWERED ON:09.12.2011
MICRO FINANCE INSTITUTIONS
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Will the Minister of FINANCE be pleased to state:

(a) the details of the major domestic and foreign Micro Finance Institutions (MFIs)/companies operating in the country alongwith their annual turnover and the rate of interest charged by them during the last three years;

(b) whether the Micro Finance Institutions (MFIs)/companies are charging exorbitant rates of interest from self Help Groups (SHGs) and farmers and using unlawful practices for recovery and if so, the details thereof, State-wise;

(c) whether the Malegam Committee looked into various issues confronting MFis;

(d) if so, the salient features of the recommendations made by the committee and follow up action taken thereon;

(e) whether the Government/Reserve Bank of India(RBI) proposes to set up any regulatory authority to regulate the functioning of the micro finance institutions/ companies; and

(f) if so, the details thereof and if not, the reasons therefor alongwith the other steps taken/being taken by the Government to rein MFIs?

Answer

THE MINISTER OF STATE IN THE MINISTRY OF FINANCE (SHRI NAMO NARAIN MEENA)

(a)&(b): Reserve Bank of India (RBI) has reported that only Non Banking Finance Companies(NBFCs) undertaking microfinance activities are registered with the RBI. Such NBFCs-MFIs(Micro Finance Institutions) are classified as `loan` companies and are regulated in terms of the provisions of the Chapter III B of RBI Act, 1934 and the Directions issued under it. Data of such systemically important companies as available with RBI is Annexed.

Although there were reports that MFIs were charging high rates of interest, RBI vide its circular dated 3rd May, 2011 has inter-alia advised the banks to ensure that the MFIs comply with a margin cap of 12% and interest cap on 26% per annum to be eligible to classify loans to MFIs as priority sector loans. The RBI has also categorized micro finance under priority sector lending and lending to Self Help Groups (SHGs) has been brought under advance to weaker sections in priority sector lending.

(c) to (f): The Malegam Committee in its Report inter alia has recommended the following:i) Creation of a separate category of NBFCs viz. NBFC-MFIs to be regulated, and supervised, by the RBI.

ii) An average `margin cap` of 10 per cent for MFIs having a loan portfolio of Rs. 100 crore and of 12 per cent for smaller MFIs. An interest cap of 24% on individual loans of MFIs.

iii) In the interest of transparency, an MFI can levy only three charges, namely, (a) processing fee (b) interest and (c) insurance charge.

iv) A borrower can be a member of only one Self-Help Group (SHG) or a Joint Liability Group (JLG).

RBI has created NBFC-MFI Companies vide its circular dated 2nd December, 2011.